AUDIT COMMITTEE

7th November 2012

2011/2012 Annual Audit Committee Report to the Governing Body and the Principal

Report By:
Audit Committee

Author of Report:
Clerk to the Corporation

Action Required: Recommendation
2011/2012 Annual Audit Committee Report to the Governing Body

Introduction

The purpose of this document is to give a formal report to the Corporation on the work of its Audit Committee and the state of internal control within the College for the year ended 31st July 2012. It is based upon reports from the College’s Internal Audit Service (RSM Tenon) and the Management Letters of the Financial Statements and Regularity Auditor (Baker Tilly).

In the conclusion, the Audit Committee gives its view on the effectiveness of the College’s whole system of internal control and the extent to which the Corporation can rely on it.

Membership

The following were members of the Audit Committee during 2011-12:

- Leslie Brissett
- Monica Adams-Acton (Left the Corporation in January 2012)
- Ken Melsom (Replaced Mrs Adams-Acton on a temporary basis for the June 2012 meeting).
- Monty Mears
- Paul Evans – Co-opted member
- Roger Dennard (Committee Chair)
- Vic Kempner

Meetings

Three meetings were held during the year on the following dates, with the following attendance:

<table>
<thead>
<tr>
<th>Date of meeting</th>
<th>No. of Members present</th>
<th>Auditors present</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 November 2011</td>
<td>Six</td>
<td>RSM Tenon + Baker Tilly</td>
</tr>
<tr>
<td>8 Feb 2012</td>
<td>Four</td>
<td>RSM Tenon</td>
</tr>
<tr>
<td>13 June 2012</td>
<td>Five</td>
<td>RSM Tenon</td>
</tr>
<tr>
<td>7 November 2012¹</td>
<td>Five</td>
<td>RSM Tenon * Baker Tilly</td>
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Terms of Reference

¹ Although this meeting took place in 2012/13, the majority of its business related to 2011/12, including the key annual reports from Internal Audit and External Audit that the Audit Committee and Board rely on for their own overall assurance when signing off the accounts for 11/12.
The terms of reference for the Audit Committee were last reviewed and approved by the Audit Committee on 8 February 2012, and the Full Corporation on 14 March 2012.
1. PROVIDER FINANCIAL ASSURANCE (PFA) AUDIT – NOVEMBER 2011

The SFA conducted a PFA Audit alongside the Ofsted inspection in November 2011. This consisted of a detailed validation of the FMCE (Financial Control and Management Evaluation) and supporting evidence file. The Audit Committee and Full Corporation had self-assessed the College’s financial management and control arrangements as being “Good” overall in the FMCE. However, the SFA did not concur with this overall grade and moderated it to an overall grade of “Inadequate” for the following reasons:

- The College’s poor (below the National Average) success rates for both 2009/10 and 2010/11
- Information received from the Principal during the audit that the College had data issues in respect of 2009/10
- Information received from the Principal during the audit that brought into question the validity and accuracy of the College’s previous Self-Assessment reports.
- Ofsted’s overall assessment of the College in November 2012 as Grade 4 (Inadequate).

The auditors concluded that these weaknesses indicated that the College’s financial management and control arrangements did not fully achieve their purpose, that is:

- support the delivery of high quality learning provision;
- contribute to effective self assessment, quality improvement and corporate governance;
- give assurance to stakeholders (this includes the Chief Executive of Skills Funding);
- ensure compliance with all relevant statutory, contractual and funding requirements; and
- demonstrate value for money.

The Audit Committee approved an FMCE Improvement Plan in February 2012 – this was agreed with the SFA, and has been monitored by the Audit Committee throughout 2012. A follow-up PFA visit is expected alongside or shortly after the Ofsted reinspection.

2. REVIEW OF THE INTERNAL AUDIT SERVICE 2011/12 – RSM Tenon

Internal audit is intended to provide the Corporation and College senior management with an opinion on the adequacy and effectiveness of College risk management, control and governance processes. It is also intended to enable decision-making on improvements to process and management that benefits the College operationally and commercially.

Following the Ofsted and PFA results, significant concerns were raised about many aspects of the College’s operations, learner data and the overall quality of the
student experience. Governors identified Internal Audit as a key means to gain understanding of known, or suspected, problem areas, and to give assurance on the degree of effectiveness of the College’s controls. They therefore acted swiftly to strengthen the 2011/12 IA programme, which had already been approved in December 2011. Following close work with RSM Tenon and the SLT, in February 2012, the Audit Committee considered amendments to the 2011/12 programme, and these were approved by Full Corporation in March 2012.

In particular, a review of the College’s new quality assurance processes was included, to give assurance that the revised system was operating as needed. The scope of the Learner Number Systems review was also extended to include a Data Self-Assessment Toolkit (DSAT) review in relation to funding evidence. RSM Tenon was also asked to carry out a funding audit to ensure reliability of the ILR data given anomalies identified with the data for 2009/10.

This confirmed the view that data management was not sufficiently sound with a relatively high proportion of data errors. Action was taken and the audit of the ILR commissioned by the Skills Funding Agency in August 2012 confirmed data was now highly accurate, rigorous and reliable. Earlier this year, governors also commissioned internal reviews of the In Business Team (Work Based Learning), and external partnerships.

The Audit Committee has taken an equally strong lead on developing the 2012/13 internal audit programme, which was signed off by Full Corporation in July 2012.

In summary, RSM Tenon conducted the following reviews during 2011/2:

January 2012:
* Significant partnerships
* Financial planning

February 2012:
* In Business Review

May 2012:
* Learner number systems
* Key financial controls
* Risk Management and Governance

August 2012:
* Review of quality processes

October 2012:
* Internal audit follow-up visit
* Draft internal auditors’ annual report 2011/12

Perhaps unsurprisingly, many of the IA systems reviews and advisory findings were heavily critical of college processes and procedures, with 12 out of 33...
recommendations raised being graded as ‘high’ in terms of the immediacy with which action was necessary.

The 2011/12 Annual IA Report states that, “Ordinarily, these findings would have led to a qualified internal audit annual report for 2011/12. However, we are also mindful that there have been major changes in the management and culture of the college, much effort has been put in to getting the college ‘back on track’, and Ofsted themselves have been positive about the progress made in the last 12 months. Therefore, and again in agreement with management and the Board, in October 2012 we undertook a detailed follow up of all the recommendations raised during 2011/12 to assess the degree to which progress had been made with their implementation. The opinions expressed below therefore reflect not only our initial findings, but also the progress made.

In summary, the report states that,

“We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of Sussex Coast College, Hastings’ arrangements for governance, risk management and control as at 31 July 2012. Based on the work undertaken, our opinions are as follows:

“Governance - Amber
A review was undertaken to assess progress made against the PFA audit recommendations. It was identified that reasonable progress is being made; however, action still needs to be taken to address some of the issues identified.

“Risk Management - Amber
Our initial review of risk management identified significant concerns with both the design and operation. Our follow up work has confirmed that significant improvements have been made.

“Control - Amber
Reviews were completed of learner number systems, key financial controls, the college’s ‘In-Business’ department and Significant partnerships. Significant issues were identified in a number of areas; however, follow up work has again confirmed that improvements have been made to the systems to ensure that the control framework has been improved.”

2. FINANCIAL STATEMENTS / REGULARITY AUDIT – Baker Tilly

Baker Tilly’s Audit Findings report for 2011/12 stated that:

We can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit reports provided in the Audit Strategy previously communicated to you.
This covered both the financial statements and regularity audits, the draft reports for which were included in Baker Tilly’s original audit plan.

3. RISK MANAGEMENT ANNUAL REPORT

As noted above, the internal auditors (RSM Tenon) had reported in 2011/12 that the Board could not take assurance that the risk management processes were effective. The Audit Committee has therefore maintained close oversight of this area throughout 2012. In recent months, the College has undertaken intensive work with another arm of RSM Tenon to revise its Risk Management policy and related processes. All of the suggestions made by the internal auditors have been incorporated into the revised policy, which was approved by Full Corporation on 13 September 2012. As also noted above, the final IA report for 2011/12 states that with regard to Risk Management, “Our follow up work has confirmed that significant improvements have been made.

A new Risk Register has also been drafted, and shared with the Full Corporation on 13 September 2012. This is being further developed to align with the emerging Strategic Plan 2013-15.

A more detailed annual report on Risk Management will be presented to the Audit Committee in June 2013, and to Full Corporation in July 2013, once the new processes have had time to embed.

4. OTHER REPORTS

KPMG FULL FUNDING AUDIT – OCTOBER 2012
Following the adverse PFA outcome, the College was issued with a Financial Notice to Improve by the SFA on 14th May 2012, and in relation to audit of data the following requirement –

“The college will also be required to receive a clear auditors’ report on its final Adult Skills Budget ILR Funding Claim 2011/12. This condition has been applied as the FMCE area of internal control was found only to be “Satisfactory” and because of the College’s 2009/10 data issues.”

The College undertook a mock audit prior to the main audit and this revealed issues which for the most part were able to be addressed in time for the main audit. This was undertaken by KPMG in the week commencing 01st October 2012.
Overall the audit was successful and a return site visit was not deemed to be required.

A summary of the key points was presented to the Audit Committee on 7 November 2012, and will be shared with the Full Corporation via the minutes on 5 December 2012.

OVERALL CONCLUSION

The College has received an **unqualified** audit opinion from their internal audit service providers and, subject to final outstanding matters shown above, is expecting **unqualified** audit opinions from their financial statement and regularity audit providers.

The Audit Committee is of the opinion that the College's arrangements for governance, risk management and control of the institution are adequate and effective.

*Signed By…………………………………………. Chair of the Audit Committee*

*Date……………………………………………………..*